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*MEMORANDUM relating to the SYSTEMS of TAXATION at present in force in the UNITED KINGDOM, with especial reference to which DIRECT and INDIRECT MODES of RAISING REVENUE are employed, and the practical effects thence arising. By WILLIAM NEWMARCH, one of the Honorary Secretaries of the Statistical Society, and Editor of its Journal.*

[Prepared by request for the Fourth Annual Meeting of the National Association for the promotion of Social Science, to be held at Glasgow, September, 1860.]

(I.)—*As regards the leading Facts.*

1. The population of the *United Kingdom* may be assumed to be thirty millions of persons.

2. It is shown by Schedule X annexed, that in 1858 the net Imperial Revenue was 62·2 millions sterling, and the local taxes a further amount of 18 millions sterling; altogether, 80 millions sterling.

3. It is also there shown that 24·6 millions (*or 30·0 per cent.* of the 80 millions) were in 1858 raised by *direct* assessments, equal to 6 per cent. per annum on incomes (and in 1860 equal to 8 per cent. on incomes).

4. It is also shown, that 32·1 millions (*or 51·7 per cent.*) of the 62·2 millions (imperial) are raised by indirect taxes, which in no sense can be justly said to interfere with industry, enterprise, or skill.

5. It is also shown that a further amount (*d*) of 13·6 millions (*or 21·9 per cent.*) of the 62·2 millions (imperial) is raised by *small* indirect taxes on articles of general comfort.

6. Out of the 62·2 millions (imperial) it is shown in Schedule X that not more than 9·9 millions can be described as taxes directly interfering with industry, enterprise, or skill.

7. Of this amount of 9·9 millions the sum of 1·5 millions represents the duties on Paper and Hops, already condemned by Parliament, and only awaiting the first surplus revenue to be abolished; and the same statement applies to the 0·9 millions, representing at least *half* the present duty of 3s. per cent. on fire insurances. These items together amount to 2·4 millions (*or 24·3 per cent.*) of the 9·9 millions now in question.

*Note.*—At the Meeting of the National Association for the Promotion of Social Science, held at Bradford, in September, 1859, it was referred to a Sub-Committee to make arrangements for a formal discussion of the subject of Taxation at the meeting to be held in September, 1860. The following Memorandum has arisen out of this proceeding, but is not to be held as being in any sense an official paper issued by the Sub-Committee.

8. The remainder of that sum, viz., 7·5 millions (equal to 12·0 *per cent.* on the 62·2 millions imperial revenue), includes 4·8 millions produced by numerous duties of assessed taxes and licences rather troublesome than oppressive, and 2·7 millions *half* the present malt tax of 3*s.* per bushel, a tax which it is desirable to have reduced but which even at its present rate is not markedly mischievous.

9. It appears that in the New England States, where direct taxation is wholly employed, that in the first place there is a poll tax of say 6*s.* on each male adult; and, in the second place, that the total direct assessments do not amount to more than say 1 *per cent.* on incomes; a rate of assessment so small as to render immaterial great inequalities in the modes of levy.

10. It appears also (see statement at foot of X) that at present in many large towns and districts in the United Kingdom, a limit has long since been reached *beyond which* the levy of direct local taxes cannot be carried.

11. It also appears that in this country, where the direct assessments amount to a large percentage on incomes, the state of the law relating to these assessments becomes necessarily and inevitably, in consequence of the refinements and specialties to be observed, so diffuse, complex, and uncertain, as to amount in itself to a great public evil.

12. As regards the 18·6 millions of indirect taxes (customs) on general comforts—tea, sugar, coffee, &c.,) it is to be remembered, that during the last twenty years the *percentage* of each of these duties has been progressively reduced from very high rates, to rates which under an ordinary state of things are intended to be, and are (by comparison and actually), very small. Sugar, for example, which used to pay 63*s.* per cwt., was reduced to a peace rate of 10*s.* per cwt., or say 1*d.* per pound; the retail price of the article having also fallen from say 8*d.* to 4*d.* per pound.

(II.)—*As regards Modes of Taxation.*

13. The four cardinal principles of taxation enforced by Adam Smith may be stated shortly, as follows:—

(a.) I. That the persons should contribute in proportion to their respective abilities;

II. That the assessments should be certain in amount, and the liabilities thereto clearly defined;

III. That all taxes should be levied at the time and in the manner most convenient to the payer;

IV. And should take out and keep out of the pocket of the payer the smallest possible sum.

14. Various schemes of taxation have been proposed from time to time. Of these the three principal may be said to be,—

- (b.) That all taxes should be arranged and levied on the principle of assessing every person in proportion to the amount of *protection* to person and property he receives from the State.
- (c.) That all taxes should be arranged and levied on the principle of taking the largest proportionate payments from those persons who have the largest incomes; and therefore that the rates of annual assessment should be *progressive*, according to the amount of the annual income—being, for example, say 1 *per cent.* upon incomes of 100*l.* per annum; and say 5 *per cent.* on incomes of 1,000*l.* per annum.
- (d.) That all taxes should be arranged and levied on the principle of exempting labour and skill, and placing the burden wholly upon *realized property*—for example, the profits and the stock in trade of a merchant or dealer would be passed over, but the realized property of a fundholder or landlord would be assessed.

15. As concerns these theories there are the following among other objections and difficulties, viz.:—

With reference to (b.)—the suggested principle of proportioning taxes to *protection*—

(1.) The first result of such a principle must be a *poll tax*, on the ground that at least each man's person is protected by the State.

(2.) Provisions must be made for dealing practically and arithmetically with such cases as the following, viz., (A) a man who earns 1,000*l.* a-year, spends it, and accumulates nothing; (B) a man who receives 1,000*l.* a-year from various sources, who spends only 100*l.* and saves 900*l.*; (C) a man who consumes at the rate of 1,000*l.* a-year out of a capital of 10,000*l.* previously acquired.

In dealing with these three comparatively simple cases, a practical rule capable of being dealt with by the rude machinery of the tax-gatherer must be framed, stating *accurately* the percentage of the protection tax.

If, for example, the protection be estimated according to what a man *spends*, then, in the first year, B will pay one-tenth as much as A, and will receive *ten* times more protection; and in the second year he will still pay only one-tenth as much as A, and will receive *twenty* times as much protection. On the other hand, C will pay each year ten times as much as B, and in ten years will be a beggar, while B will have amassed a large fortune.

If the protection be estimated according to the amount of *realized property* possessed, then A will have a house and possess premises ten times larger than B, but will pay no tax whatever; while B will pay ten times more than A because he adds nine times more to the accumulated wealth of the country, C will be worse off than A, inasmuch as in ten years, and with the same expenditure,

his income would wholly cease ; but during those ten years, while A would pay no taxes whatever, C would have been mulct of a large part of his temporary and expiring revenue.

16. The truth seems to be, that while the State must necessarily rest its just claim to impose taxes on the ground of the general protection it affords to each and all its subjects, it is impossible, *in practice*, to assess upon each person an amount of taxes corresponding *exactly* to the amount of protection he receives.

17. With reference to (c) the suggested principle of—

*Progressive assessments*, or requiring the largest proportionate payments from those persons who have the largest incomes,

some of the difficulties are these :—

(1.) There is the same injustice in forcibly taking the rich man's means in order to lesson, *pro tanto*, the poor man's share of a reasonable burden of taxes, as there would be in forcibly compelling the poor man's labour in order to increase the rich man's profits. In other words, the suggested principle amounts simply to confiscation.

(2.) The wealth or poverty of individuals is and must be determined by circumstances and accidents with which the State cannot and ought not to interfere by any schemes of artificial compensation or re-adjustment.

(3.) To tax the means of a rich man at a higher rate than the means of a poor man, would be in the most direct form a penalty on prudence and accumulation ; and therefore a hindrance of the most formidable nature to the progress of the community in wealth, comfort, and intelligence.

18. With reference to (d) the suggested principle of—

Placing the burden of taxes wholly upon *realized property*, in order to exempt labour and skill,

some of the difficulties are these .—

(1.) Even in this country, rich as it is, a revenue of 80 *millions per annum* could not be raised from the yearly income yielded by realized property except by a percentage of assessment so heavy, that in the immensely preponderating mass of the small incomes, it would amount to oppression of the direct kind.

(2.) On no ground of justice can it be said, that in this country the recipients of income from realized property are bound to pay all the taxes required by the State ; and certainly if such a change could be seriously contemplated, notice equal at least to half the length of a generation should be given. The present amount of realized property has, in the main, been fairly earned by the industry and skill of the present or former possessors, and earned under the expectation that no undue amount of taxation would be placed upon property of that description.

(3.) The suggestion of taxing realized property solely, in order to exempt labour and skill, involves the same principle of confiscation which is included in the preceding suggestion of a rate of assessment increasing with the income of the payer of the tax.

(4.) It also involves the same evil of operating as a penalty upon prudence and accumulation :—of granting a bonus to expenditure :—and inflicting a fine on savings.

19. It seems, therefore, that neither of these three hypotheses (*e, f, g,*) will afford any solid assistance; and that on grounds of substantial justice and real practicability we must take as our guides the four rules (*a*) laid down by Adam Smith; these rules amounting in substance to this general doctrine, viz :—

That the total taxes of a State must be kept as small in amount as possible, and that amount must be contributed by *all persons* according to their different abilities, and in the modes most convenient to the payers.

And it may be added, that in an old country like this, where 80 millions of revenue have to be raised from 30 millions of people, an immense majority of whom depend upon wages and profits of trade :—and where, further, in consequence of the almost infinite variety of sources of income—land, houses, public funds, professions, joint-stock companies, commerce, manufactures, mines, ships, inventions, retail trades, &c.,—the “respective abilities” to contribute to taxation are of the most varied description—it would be wholly puerile and impossible to attempt to raise so vast a revenue in accordance with any single rules or by the aid of any single plan.

The circumstances of the people to be taxed, the enormous magnitude of the sum to be raised, and the free genius of the laws to be administered, all compel the employment of principles and machinery distinguished in all their parts by diversity, pliability, and plainness.

### (III.) *As regards Practical Results in this Country.*

The following propositions are submitted as arising fairly from the facts and statements herein adduced, viz. :—

20. That a very large part of the present imperial revenue of the United Kingdom—a part certainly exceeding one-half—is raised by taxes not open to serious objection on any ground, abstract or practical.

21. That in an old country in which 80 millions sterling of (total) revenue have to be raised from 30 millions of people,—the great mass of whom subsist on wages—*indirect taxation* to a large extent is inevitable, and may be so adjusted as to avoid almost entirely the evils of injustice and oppressiveness.

22. That combining the imperial and local taxation at present raised, the *direct* virtual assessments on income already (in 1860)

amount to 8 *per cent. per annum*, and that practically this mode of levy does not admit of more than trifling extension.

23. That to supersede any large part of the present indirect taxes, in the form of moderate customs' duties on articles of general consumption, would render necessary a heavy poll tax and a direct assessment on some capitalised value of wages and small incomes; both of them forms of taxation in a high degree impossible in this country.

24. That as a general result, it may be affirmed with no small confidence, that the present system of taxation of the United Kingdom is not fairly open to the sweeping censures, and certainly is not susceptible of the extreme and subversive changes which in some quarters have been lately recommended.

#### SCHEDULE X.—NET IMPERIAL REVENUE, UNITED KINGDOM, 1858.

##### (I.)—*Taxes below the Line of Interference with Industry, Enterprise, or Skill.*

###### FIRST (a.)—*Taxes on Extravagance.*

Class.	Net Rev. Mins. £	Per cent. of Total Imperial Net Revenue.
<i>Customs</i> —Spirits .....	2.30	
Tobacco .....	5.90	
Wine .....	1.80	
	10.00	
<i>Excise</i> — Spirits .....	9.00	
Malt ( <i>half</i> ) .....	2.70	
	11.70	
	21.70 = 36.5 p. ct.	

###### SECOND (b.)—*Taxes wholly innocuous.*

<i>Customs</i> —Corn (1s.) Duty .....	0.60	
<i>Excise</i> —Railway Duty .....	0.40	
Post Office Net Revenue .....	1.30	
	2.80	
	2.30 = 3.8 p. ct.	

###### THIRD (c.)—*Taxes on Transfers of Property.*

Stamp Duties on Deeds, Probates, Lega- cies, Bills, Notes, and Land Tax .....	7.20	
Duty on Fire Insurances ( <i>half</i> ) .....	0.90	
	8.10	
	8.10 = 11.4 p. ct.	
	32.10 = 51.7 p. ct.	
	D 2	

(II.)—*Taxes more or less Interfering with Industry, Enterprise, or Skill.*FOURTH (d.)—*Moderate Taxes on General Comforts.*

Class.	Net Rev. Mlms.	Per cent. of Total Imperial Net Revenue.
	£	
Customs—Tea .....	5·30	
Sugar .....	6·00	
Coffee .....	·50	
Other Articles .....	1·80	
	— 13·60	
		— 13·60 = 21·9 p. ct.

FIFTH (e.)—*Direct Taxes on Income.*

Income Tax 6d. per £ = 2½ per cent per annum .....	6·60	
	— 6·60	
		— 6·60 = 10·5 p. ct.
		20·20 = 32·3 p. ct.

SIXTH (f.)—*Taxes on Employment and Expenditure.*

Assessed Taxes .....	3·20	
Stamps—Licences .....	·20	
Excise — do. ....	1·40	
	— 4·80	

SEVENTH (g.)—*Taxes directly interfering with Trade.*

Excise—Paper Duties .....	1·10	
Hop Duties .....	·40	
	— 1·50	

EIGHTH (h.)—*Further similar Taxes.*

Half Malt Tax (see a) .....	2·70	
„ Fire Duty (see c) .....	·90	
	— 3·60	
		— 9·90 = 16·0 p. ct.
Total (II) Category .....	30·10	— 48·3 p. ct.
„ (I) „ .....	32·10	— 51·7 p. ct.
Total Net U. K. Impl. Revenue, 1858 .....	62·20	— 100

(1.) To this total must be added the LOCAL TAXATION of the United Kingdom, amounting to say 18,000,000*l.* per annum.

(2.) These local taxes may, for the purposes of general argument, be safely described as taxes on income and property. If we assume that house rent may be represented, in general terms, as equal to say *one-sixth* of the income of the occupier, and that the local taxes are equal to say twenty per cent. per annum on the rent, then 100*l.* per annum *rent* pays 20*l.* per annum local taxes; and that 20*l.* is equal to 3½ per cent. per annum on the assumed *income* (of 600*l.*) of the occupier, —and adding the income tax of 2½ per cent. per annum (as above *e.*) the total



*direct* taxes in 1858 would be 6 per cent. per annum on income. In 1860 the income tax is  $4\frac{1}{2}$  per cent. per annum, and therefore, on the basis assumed, the *direct* taxation will be 8 per cent. per annum.

(3.) In Massachusetts, where *direct* taxation is exclusively employed, the whole amount of State and local taxes *does not amount to more than one per cent. per annum on incomes*. (See a paper by Dr. Jarvis, Boston, U.S., in *Statistical Journal*, September, 1860). In Massachusetts, and most of the States of the American Union, a *poll tax* of one and a-half dollars (6s.) a head, on males of 16 and above, is a fundamental part of the fiscal scheme.

(4.) It is stated in the Circular Letter of 18th April, 1859, by Mr. Thwaites, the chairman of the Metropolitan Board of Works, that in the metropolis it has become, in effect, "altogether impracticable to raise by means of direct rates" any further sums for carrying out even the most urgent public works,—and he gives as instances of actual excessive pressure of local rates, in the year 1857—Chelsea, where the rate was 6s. 11d. per pound—Shoreditch, 6s. 8d.—Bermondsey, 6s. 6d.—Horseleydown, 7s. 10d.—and several others.

(5.) As regards the extreme difficulty and complexity which attends the levy and collection of onerous *direct* taxes, reference may be made to Mr. Coode's well-known standard Report of 1844 on Local Taxation, in the *index* of which no less than *twenty-five pages* of small print are occupied with outline headings under the three subjects of "Property in respect of which the rate is imposed"—"Persons liable to the rate"—and "Valuation of rateable property."

(6.) The following, we believe, are the only articles on which Customs' duties are now payable; the last marked *e* and *s* being those on which the duties are regulated by the excise or stamp duties on like articles of home produce or manufacture:—

Arrowroot, biscuit, pearled barley, macaroni, sago, and other farinaceous articles,  $4\frac{1}{2}d.$  per cwt.

Books, prints, and drawings, per cwt. 16s.; under international copyright, 15s.

Cocoa, 1d. per lb.; husks,  $\frac{1}{2}d.$ ; paste and chocolate, 2d.

Coffee, raw, 3d.; roasted, 4d. per lb.

Corks, ready made, 3d. per lb., till March 31, 1862.

Corn, 1s. per quarter; meal and flour,  $4\frac{1}{2}d.$  per cwt.

Currants, figs, prunes, raisins, 7s. per cwt.

Plums, French or dried, 15s. per cwt.

Cherries (dried), confectionary, preserved fruits, ginger, &c., 2d. per lb., till July 1, 1861.

Hats or bonnets of chip, straw, horsehair, &c., 1s. 3d. per lb., till March 31, 1861.

Pepper, 6d. per lb.

Powder, hair and perfumed,  $4\frac{1}{2}d.$  per cwt.

Sugar, 12s. 8d. to 18s. 4d.; cane juice, 10s. 4d.; molasses; 5s. per cwt., till July 1, 1861.

Tea, 1s. 6d. per lb., till July 1, 1861.

Tobacco, 3s. per lb.; manufactured or cigars, 9s.; snuff, 6s.

Timber, 1s., sawn wood 2s. the load; furniture wood, 1s. the ton.

Wine, 3s. per gal., till Dec. 31., 1860; afterwards, 1s. to 2s. 11d., according to strength.

*e.* Ale and beer, 20s. the barrel.

*e.* Hops, 20s. per cwt., till January 1, 1862; afterwards, 15s.

*e.* Malt, 26s. per quarter.

*e.* Chicory, or other vegetable matter for like use, 6s. per cwt.

*e.* Paper, 16s. per cwt.; paper hangings, 14s.

*e.* Spirits, foreign, 10s. 5d.; colonial, 10s. 2d. per gal.

*e.* Vinegar, 3d. per gal.

*s.* Plate—gold, 17s. per oz.; silver, 1s. 6d. per oz.

*s.* Cards, playing, 15s. per dozen packs.

*s.* Dice, 21s. per pair.